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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-05 H-01 INR-10
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11
AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02
OPIC-03 LAB-04 SIL-01 OMB-01 STR-07 CEA-01 DOE-15
SOE-02 ACDA-12 /130 W
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R 171516Z JUL 78
FM AMEMBASSY REYKJAVIK
TO SECSTATE WASHDC 8557
INFO AMEMBASSY COPENHAGEN
AMEMBASSY LISBON
AMEMBASSY OSLO
AMEMBASSY PARIS
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USOECD

E.O. 11652: N/A
TAGS: PEPR, ETRD, IC, PO
SUBJECT: COMMERCIAL FRICTION BETWEEN PORTUGAL AND ICELAND

1. PORTUGUESE COMPLAINTS OVER ALLEGED ICELANDIC UNWILLINGNESS TO REDRESS IMBALANCE IN BILATERAL TRADE WERE HIGHLIGHTED BY REPORT THAT PORTUGAL MIGHT REFUSE TO ACCEPT 4000 TONS OF SALTFISH FOR WHICH GOP HAD CONTRACTED. PORTUGUESE WERE APPARENTLY TRYING TO PRESSURE ICELAND TO AGREE TO HAVE ONE OR MORE SHIPS CONSTRUCTED IN PORTUGAL, SOMETHING ICELANDERS HAD HERETOFORE BEEN RELUCTANT TO DO. GOP CAN NOW CLAIM MODERATE SUCCESS AS RESULT OF RECENT DECISION BY GOI TO PERMIT CONSTRUC-
TION OF AS MANY AS TWO SHIPS IN PORTUGUESE YARDS.

2. FOR NUMBER OF YEARS, ICELAND HAS HAD HIGHLY FAVOR-
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ABLE BALANCE OF TRADE WITH RESPECT TO PORTUGAL. ABOUT TEN PERCENT OF ICELANDIC EXPORTS GO TO PORTUGAL WHILE LESS THAN ONE-HALF PERCENT OF ICELAND'S IMPORTS ARE OF PORTUGUESE ORIGIN. GOP HAS HAD LITTLE SUCCESS IN INCREASING VALUE OF ITS EXPORTS TO ICELAND. TRADE DELEGATION FROM LISBON VISITED ICELAND APRIL 26-27 IN HOPES OF STIMULATING FUTURE PURCHASES. AGREEMENTS WERE

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REACHED FOR ICELAND TO BUY 35,000 TONS DISTILLATE AND 7000 TONS GASOLINE FOR DELIVERY IN 1978 AT TOTAL COST OF APPROXIMATELY $5.1 MILLION. IN ADDITION, PORTUGUESE AGREED TO BUY 8000 TONS OF SALTFISH IN TWO CONSIGNMENTS. (FIRST 4000 TONS HAVE ALREADY BEEN DELIVERED.) GOI ALSO AGREED TO STUDY POSSIBILITY OF INCREASING IMPORTS FROM PORTUGAL, HAVING SHIPS BUILT IN PORTUGUESE YARDS, AND SERVICING LOFTLEIDIR AIRCRAFT IN PORTUGAL BUT GOI HAS SEEMED RELUCTANT TO MOVE AHEAD ON THESE ITEMS.

3. WITH ITS OWN OVERALL TRADE BALANCE PERENNIALLY IN DEFICIT, GOI HAS NOT BEEN ANXIOUS TO INCREASE IMPORTS OF PRODUCTS (E.G., SHIPS) WHICH CONCEIVABLY COULD BE PRODUCED DOMESTICALLY. ICELANDERS HAVE BEEN SYMPATHETIC TOWARD PORTUGUESE WITH WHOSE POLITICAL PROBLEMS THEY ARE FAMILIAR. TO THIS END THEY HAVE DIVERTED A MODERATE AMOUNT OF THEIR IMPORTS OF REFINED PETROLEUM PRODUCTS FROM SOVIET UNION TO PORTUGAL. IN ADDITION, GIVEN INCREASED COMPETITION (CHIEFLY FROM NORWAY) FOR ICELANDIC PRODUCTS IN ITALY, SPAIN, AND OTHER AREAS, ICELAND HAS TRIED TO PRESERVE AND INCREASE ITS ACCESS TO PORTUGUESE MARKET.

4. ICELAND'S CARETAKER GOVERNMENT WAS THOUGHT TO BE SOMEWHAT RELUCTANT TO MAKE SUBSTANTIVE DECISIONS WHICH COULD PREEMPT RESPONSIBILITIES OF ITS SUCCESSOR. IT
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APPEARS, HOWEVER, THAT ICELANDIC SALTFISH PRODUCERS CONSIDERED PORTUGUESE THREAT TO REFUSE THEIR PRODUCT SERIOUS ONE, AND THEY PUT PRESSURE ON GOI TO GIVE APPROVAL FOR PURCHASE OF PORTUGUESE VESSELS. ALTHOUGH RESULTING POSITIVE GOI RESPONSE WILL GIVE SOME BOOST TO PORTUGUESE EXPORTS TO ICELAND, TRADE BALANCE BETWEEN THE TWO COUNTRIES IS EXPECTED TO REMAIN VERY MUCH IN ICELAND'S FAVOR.
BLAKE

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